

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**

**The HELP II Program**

**EXECUTIVE SUMMARY**

<b>Applicant:</b> Community Hospital of Long Beach ("CHLB" or "the Hospital") 1720 Termino Avenue, Long Beach, CA 90804 Los Angeles County		<b>Amount Requested:</b> \$400,000	<b>Requested Loan Term:</b> 5 years
<b>Project Site:</b> 1720 Termino Avenue, Long Beach, CA 90804		<b>Date Requested:</b> April 24, 2003	<b>Resolution Number:</b> HII-146
<b>Facility Type:</b> Acute Care Hospital			
<b>Policy Issue:</b> Under the HELP II Loan Program guidelines, a three-year financial analysis is typically performed to determine an organization's ability to manage additional debt. The guidelines also require patient revenues not to exceed \$20M. Staff recommends approval of an exception to both of these guidelines. Please refer to page 2 of the Staff Summary and Recommendation for more detailed information.			
<b>Use of Loan Proceeds:</b> Loan proceeds will be used to purchase technology-related equipment to update the Hospital's information system.			
<b>Type of Issue:</b> HELP II Loan		<b>Prior HELP II Borrower:</b> No	
<b>Financial Overview:</b> CHLB re-opened in 2001 due to strong community support. CHLB maintains a high demand for services despite the existence of other hospitals in the area. First full-year operations produced solid results. The balance sheet shows positive cash flows with strong liquidity, growing net assets, and the capacity to service additional debt.			
<b>Sources of Revenue:</b> (FYE 06-30-02)			
	<u>Amount</u>	<u>Percent</u>	
Net patient revenue	\$22,253,424	87%	
Contributions	2,079,958	8%	
Net assets released from restrictions	1,192,374	5%	
Total support and revenue	<u>\$25,525,756</u>	<u>100%</u>	
<b><u>Estimated Sources of Funds:</u></b>		<b><u>Estimated Uses of Funds:</u></b>	
HELP II Loan	\$400,000	Equipment costs	\$1,266,665
HealthCAP loan *	660,000	Financing costs	5,000
Borrower's Funds	<u>212,665</u>	Other costs	<u>1,000</u>
Total Sources	<u>\$1,272,665</u>	Total Uses	<u>\$1,272,665</u>
* Loan application in underwriting, pending NCBDC loan approval.			
<b>Legal Review:</b> No information was disclosed to question the financial viability or legal integrity of the Applicant.			
<b>Staff Recommendation:</b> Staff recommends the Authority approve a resolution for a HELP II Loan for Community Hospital of Long Beach in an amount not to exceed \$400,000 for a term of 5 years subject to the standard HELP II loan provisions and approval of the pending HealthCAP loan.			

**STAFF SUMMARY AND RECOMMENDATION**  
**Community Hospital of Long Beach (“CHLB” or “the Hospital”)**  
 April 24, 2003  
 Resolution Number: HII-146

**POLICY ISSUE:** Under the HELP II Loan Program guidelines, staff typically performs a financial analysis based on the most recent three years’ audited financials to determine an organization’s ability to manage additional debt. Since CHLB closed in September 2000, and re-opened as a new non-profit organization on June 27, 2001, audited financials for the period ending June 2000 are not available and 2001 information represents three days of data. Staff recommends approval of an exception to the guidelines by permitting a one-year analysis along with interim data through February 28, 2003. In addition, the guidelines also require patient revenues not to exceed \$20M. Since patient revenues slightly exceed this threshold and this loan request is in conjunction with a HealthCAP loan, staff also recommends approval of an exception to this guideline.

**I. PURPOSE OF FINANCING:** In conjunction with the pending HealthCAP loan, the Help II loan will enable CHLB to purchase technology-related equipment to update its information services.

*Equipment* ..... ***\$1,266,665***

The project entails the purchase, installation, and implementation of a hospital-wide information management system including hardware, conversion of the old system, and installing and training for the new system. The Help II loan will fund various personal computer purchases, software, hubs, printers, and other hardware. Approximately 31% of the total cost of the project will be funded with the proposed HELP II loan. Additional project funds will be provided by an estimated \$660,000 HealthCAP loan (currently pending), with the applicant supplying the balance. The expected completion date of the project is April 2004.

*Financing Costs*..... 6,000  
     Authority Closing Fee..... 5,000  
     Estimated Closing Costs ..... 1,000  
***Total***..... **\$1,272,665**

**Financing structure:**

- 5-year loan term, fully amortized.
- 60 equal monthly payments of approximately \$7,187 (total annual payments of approximately \$86,244).
- UCC-1 filing (Second position lien, subordinate to NCBDC loan of \$660,000) on equipment to be purchased.
- Total interest payments of approximately \$31,249.
- Maximum loan to value ratio not to exceed 95%.
- Maximum price purchase/installation contract.

**FINANCIAL STATEMENTS AND ANALYSIS:**

**COMMUNITY HOSPITAL OF LONG BEACH  
STATEMENT OF ACTIVITIES  
(Unrestricted)**

	<b>Period Ended</b>	<b>For the Year Ended June 30,</b>	
	<b>February 28,</b>	<b>2002</b>	<b>2001</b>
	<b>2003</b>		
	<b>(Unaudited)</b>		
<b>Revenues and Other Support</b>			
Net patient service revenue	\$ 20,176,187	\$ 22,253,424	\$ 2,136
Contributions	-	2,079,958	2,892,888
Net assets released from restrictions	809,863	1,192,374	-
Total Revenue	<u>20,986,050</u>	<u>25,525,756</u>	<u>2,895,024</u>
<b>Operating Costs and Expenses</b>			
Operating expenses	15,851,652	19,101,049	2,811,572
Depreciation	215,101	308,121	13,175
Interest	160,271	342,594	12,744
Provision for bad debts	3,763,325	3,692,864	-
Total Expenses	<u>19,990,349</u>	<u>23,444,628</u>	<u>2,837,491</u>
Income from operations	995,701	2,081,128	57,533
Other income	233,968	365,423	200,856
Provision for income taxes	-	(29,347)	(32,143)
<b>Increase In Unrestricted Net Assets</b>	<b>1,229,669</b>	<b>2,417,204</b>	<b>226,246</b>
Unrestricted Net Assets Beginning of Year	<u>2,643,450</u>	<u>226,246</u>	<u>-</u>
Unrestricted Net Assets, End Of Year	<u>\$ 3,873,119</u>	<u>\$ 2,643,450</u>	<u>\$ 226,246</u>

FY 2001 represents the period of inception (August 29, 2000) to June 30, 2001. The Hospital re-opened on June 27, 2001.

**COMMUNITY HOSPITAL OF LONG BEACH  
STATEMENT OF FINANCIAL POSITION**

	<b>As of February 28, 2003 (Unaudited)</b>	<b>As of 2002</b>	<b>As of June 30, 2001</b>
<b>ASSETS</b>			
Current Assets:			
Cash	\$ 1,697,079	\$ 1,799,496	\$ 640,571
Patient accounts receivable, net	6,093,591	4,674,331	1,748
Supplies	359,759	359,759	214,970
Total current assets	8,150,429	6,833,586	857,289
Equipment and leasehold improvements, net	2,211,926	2,050,377	1,447,648
Other assets	423,654	153,825	100,000
<b>TOTAL ASSETS</b>	<b>\$ 10,786,009</b>	<b>\$ 9,037,788</b>	<b>\$ 2,404,937</b>
<b>LIABILITIES AND NET ASSETS</b>			
Current Liabilities:			
Accounts payable	\$ 2,224,117	\$ 1,282,109	\$ 1,058,273
Accrued expenses	1,557,441	926,456	157,830
Income taxes payable	-	61,490	32,143
Due to related party	-	-	89,836
Line of credit	61,521	23,528	-
Long-term debt, current portion	123,855	393,741	526,460
Total Current Liabilities	3,966,934	2,687,324	1,864,542
Long-Term debt, net of current portion	2,921,803	2,872,998	289,996
Other Liabilities	24,153	24,153	24,153
<b>TOTAL LIABILITIES</b>	<b>6,912,890</b>	<b>5,584,475</b>	<b>2,178,691</b>
<b>NET ASSETS</b>			
Unrestricted	3,873,119	2,643,450	226,246
Temporarily restricted	-	809,863	-
<b>TOTAL NET ASSETS</b>	<b>3,873,119</b>	<b>3,453,313</b>	<b>226,246</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ 10,786,009</b>	<b>\$ 9,037,788</b>	<b>\$ 2,404,937</b>

**Financial Ratios:**

	<b>Proforma (a) FYE 2002</b>		
Debt Service Coverage (x)	2.79	3.53	19.79
Debt/Unrestricted Net Assets (x)	1.64	1.24	3.61
Margin (%)		8.2%	2.0%
Current Ratio (x)		2.54	0.46

(a) Recalculates 2002 audited results to include the impact of this proposed financing as well as the pending HealthCAP loan in the amount of \$660,000.

## **Financial Discussion:**

### **CHLB re-opened in 2001 due to strong community support.**

Collaborative efforts by many different members of the community as well as funding provided by the City of Long Beach, allowed the Hospital to re-open in June 2001, as a new non-profit organization. The previous owner purchased the Hospital in the 1990s although it already owned another facility nearby. Subsequent cost-saving measures were necessary leading to the decision to close CHLB in September 2000, in an attempt to reduce the competition for services suffered by the other hospital.

### **CHLB maintains a high demand for services despite the existence of other hospitals in the area.**

Although there are three other hospitals in the nearby vicinity, CHLB has renewed its patient base since re-opening. The upward trend is expected to continue while CHLB ramps up to full capacity as well as the ability to service more patients through its planned technological improvements. Management anticipates opening new services, signing new payer contracts and expanding its outreach into the community to promote and sustain a consistent pattern of growth for the foreseeable future. Through continued strategic planning, optimal capacity is expected to be achieved within three to five years.

### **First full-year operations produced solid results.**

CHLB posts strong operating results with a current margin at 8.2%. Medicare, Medi-Cal, and other third-party payers and patients constitute net patient revenues with the most recent fiscal year comprising 25%, 14%, and 61%, respectively. The income statement reflects increasing revenues. The addition of 28 beds for mental health services in July 2002 provided some of the revenue gains with corresponding expenses also increasing.

Contributions have declined since re-opening, but remain strong at over \$2M in fiscal 2002. During the 2002 fiscal year and the initial period ended June 30, 2001, the Long Beach Community Medical Foundation (the Foundation) distributed approximately \$1.9M and \$2.6M, respectively, in unrestricted contributions to CHLB. CHLB expects approximately \$100,000 in unrestricted contributions for the 2003 fiscal year. The Foundation was established to provide continued fundraising support for CHLB. It consists of board members common to both the Hospital and the Foundation.

### **The balance sheet shows positive cash flows with strong liquidity, growing net assets, and the capacity to service additional debt.**

CHLB's balance sheet exhibits positive cash flows with strong liquidity provided by nearly \$1.8M in cash for the most recent audited fiscal year. Patient accounts receivable is close to \$4.7M in fiscal 2002. The debt-to-unrestricted net assets ratio indicates that CHLB is leveraged. The proforma ratio is 1.64x and includes this proposed \$400,000 Help II loan as well as a pending \$660,000 HealthCAP loan.

Total net assets are substantial with nearly \$3.5M in the most recent audited fiscal year and close to \$3.9M for the eight-month interim period. Debt service coverage is strong at 3.53x in 2002, and proforma results remain good at 2.79x. Management anticipates meeting all of its additional debt obligations.

## **II. UTILIZATION STATISTICS:**

	<b>Year Ending June 30,</b>	
	<b><u>through Feb. 2003</u></b>	<b><u>2002</u></b>
<b>Acute Beds:</b>		
Licensed Beds	256	258
Available Beds	133	107
Staffed Beds	60	30
Occupancy on Available Beds	23%	14%
<b>Average Daily Census:</b>		
Intensive Care Unit (ICU)	4.0	3.8
Medical/Surgical/Telemetry	13.8	11.7
Behavioral Health *	<u>13.2</u>	<u>-</u>
Total patients per day	31.0	15.5
<b>Patient Days by Nursing Unit:</b>		
ICU	971	1,393
Medical/Surgical/Telemetry	3,345	4,281
Behavioral Health *	<u>3,219</u>	<u>-</u>
Total Patient Days	7,535	5,674
<b>Average Length of Stay (days)</b>		
Discharges	5.0	3.9
Patient Days	1,522	1,466
	7,535	5,674
<b>Emergency Visits</b>		
Emergency Visits	11,210	13,530
Emergency Visits per day	46.1	37.0
<b>Surgery Cases</b>		
Surgery Cases	364	510
<b>Inpatient Revenues</b>		
Inpatient Revenues	63%	61%
Outpatient Revenues	<u>37%</u>	<u>39%</u>
Total	100%	100%

\* Behavioral Health services added July 2002 with 28 beds.

#### **IV. ORGANIZATION:**

**Background:** The Hospital was built in 1924 and originally opened on July 15<sup>th</sup> of the same year. In September 2000, the owner of CHLB at the time, decided to close the Hospital to reduce the competition it created for another hospital it owned in the nearby vicinity.

CHLB was incorporated on August 29, 2000 and re-opened on June 27, 2001, due to the organized efforts of the community. CHLB is a California not-for-profit, public benefit corporation, governed by a volunteer board of community leaders and physicians. The Hospital operates as an acute care medical facility, providing inpatient, outpatient and emergency care services for residents of the Greater Long Beach area. The Hospital houses 258 licensed beds in facilities leased from the City of Long Beach.

**Licenses:** CHLB is licensed by the State Department of Health Services to operate as a General Acute Care Hospital with 203 beds. In addition, the Hospital has 28 beds for Acute Psychiatric services and 27 Skilled Nursing beds.

**Competition:** There are three other hospitals (Long Beach Memorial, St. Mary's Medical Center, and Pacific Hospital of Long Beach) within 5.5 miles of CHLB. However, CHLB provides a 28-bed Behavioral Health Unit for adults, which is not available at Long Beach Memorial or St. Mary's Medical Center. In addition, CHLB is a satellite of the Paramedic Program and receives approximately 15% of the paramedic runs in Long Beach.

**V. OUTSTANDING DEBT:**

Description	Original Amount	Amount Outstanding As of 06/30/02 (a)		Estimated Amount Outstanding After Proposed Financing
<b>Existing:</b>				
City of Long Beach, 2001	\$2,288,579	\$2,354,185	(b)	\$2,354,185
Keane Capital lease, 2001	689,584	277,308	(c)	0
DVI Capital lease, 2001	638,972	635,246		635,246
<b>Pending:</b>				
HealthCAP loan, 2003		N/A		660,000
<b>Proposed:</b>				
CHFFA HELP II Loan, 2003		N/A		400,000
<b>TOTAL DEBT</b>		<b><u>\$3,266,739</u></b>		<b><u>\$4,049,431</u></b>

(a) Includes current portion.

(b) Interest added to loan principal until first payment in May 2003.

(c) Final payment due 06/30/2002.

**VI. SECTION 15438.5 OF THE ACT:**

Savings will allow CHLB to maintain or expand services for its clients at little or no cost. In addition, updated diagnostic and medical practices created by the new technology will result in significantly improved patient care outcomes.

**VII. SECTION 15459.1 (b) OF THE ACT (Community Service Requirement):**

CHLB has submitted its physicians' list dated March 7, 2003 as required by Section 15459.1 (b) of the Act.

**VII. COMPLIANCE WITH SEISMIC REGULATIONS:**

Community Hospital of Long Beach has completed the required Evaluation Plan and Compliance Plan to meet SPC-2 requirements for safety standards mandated by SB 1953. The Hospital re-opened on June 27, 2001. On December 1, 2001 the Evaluation Plan and Compliance Plan had been submitted to OSHPD.

Under the March 1, 2002 Code of Application Notice issued by OSHPD, hospitals are allowed to seek a delay if compliance will result in diminished health care capacity that can not be provided by other general acute care hospitals within a reasonable proximity.

CHLB will request a five-year extension of compliance from 2008 to 2013 based on this diminished capacity. Amended Compliance Plans will be submitted to OSHPD identifying the various phases and critical dates for incremental progress toward compliance in 2013. The extension request with amended compliance schedule will be submitted prior to the January 1, 2007 deadline.

The Compliance plan calls for all existing buildings to be SPC-4 or SPC-5 and NPC-3 compliant by 2013.

**IX. LEGAL REVIEW:**

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

**X. STAFF RECOMMENDATION:**

Staff recommends the Authority approve a resolution for a HELP II Loan for Community Hospital of Long Beach in an amount not to exceed \$400,000 for a term of 5 years subject to the standard HELP II loan provisions and approval of the pending HealthCAP loan.